AMERICAN ACADEMY *of* ACTUARIES

May 2, 2022

Mr. Mike Boerner,
Chair
Life Actuarial (A) Task Force (LATF)
National Association of Insurance Commissioners (NAIC)

Re: Comments on the Revised Exposure Draft Actuarial Guideline on Asset Adequacy Testing

Dear Mr. Boerner,

The Asset Modeling and Reporting Task Force of the American Academy of Actuaries ("the task force") is pleased to provide the following comments on the revised exposure draft actuarial guideline (AG) on asset adequacy testing (AAT) that was exposed during LATF's March 31 meeting.

The task force supports many of the changes made in the revised exposure draft—e.g., the changes made to the treatment of equity and reinsurance, and keeping the sensitivity test a disclosure beyond year-end 2022. However, the task force has concerns that the BBB threshold for the scope definition and sensitivity test may miss some complex but highly rated structured securities, such as collateralized loan obligations (CLOs). The task force notes that the NAIC's Statutory Accounting Principles Working Group (SAPWG) has a simultaneous exposure to add additional columns of information to Schedule D, including Option Adjusted Spread (OAS), duration, etc. LATF may want to consider whether any of this additional information can supplement credit rating as an additional principle-based basis for identifying complex, high-net-yield assets.

The revised exposure draft maintains the requirement for Committee on Uniform Securities Identification Procedures (CUSIP)-level attribution analysis of excess returns on projected high-net-yield assets. As expressed in our prior comment letter, the task force questions the value of this attribution analysis given the relatively high amount of both judgment and effort that would be involved. The task force suggests considering a materiality trigger for such analysis such as only requiring it if the sensitivity in Section 5.A produces materially different results from the baseline. The task force also suggests considering additional guidance and/or safe havens for the attribution analysis, such as setting the portion of the excess spread due to defaults equal to the spread-related default factor from VM-20; i.e., equal to one-quarter of the difference between prescribed current and ultimate spreads, capped (floored) at double the positive (negative) baseline default factor. For the portion of the excess spread due to liquidity, the task force recommends considering whether guidance on an acceptable procedure could be provided, perhaps based on determining comparable assets at different points on the liquidity spectrum.

Section 2.B of the revised exposure draft states the AG is applicable for medium-sized life insurers (i.e., general account actuarial reserves between $500 million and $5 billion) with over 5% of supporting assets (selected for asset adequacy analysis) in the category of projected high net yield assets. In addition to considering assets on the valuation date, the task force suggests regulators contemplate whether Section 2.B should also consider the impact of reinvestments, which could materially increase the percentage of projected high net yield assets over the course of the projection.

Thank you for your consideration of these comments. Please contact Amanda Barry-Moilanen (barrymoilanen@actuary.org), the Academy's life policy analyst, with any questions.

Sincerely,

Jason Kehrberg, MAAA, FSA
Chairperson
Asset Modeling and Reporting Task Force
American Academy of Actuaries